ACTION

AGENDA ITEM: BUDGET REPORT

ISSUES TO COME BEFORE THE BOARD AT THIS MEETING:

1. Consider the allocation of FY 2002/03 local assistance funds.

2. Discuss Board options and positions on a build-out model for the Library of California.

3. Consider authorizing the preparation of a Budget Change Proposal for Library of California programs and services.

RECOMMENDED MOTION FOR CONSIDERATION BY THE BOARD: I move that the Library of California Board request that its Chief Executive Officer issue claim forms and other related materials to the Regional Library Networks for allocations of $_____ per network and that these claims be disbursed following the signing of the State Budget, or as soon as possible thereafter. The Board will review a final budget proposal at its August 2002 meeting and may authorize additional Regional Library Network payments at that time.

RECOMMENDED MOTION FOR CONSIDERATION BY THE BOARD: I move that the Library of California Board authorize its Chief Executive Officer to prepare a Budget Change Proposal, for Board consideration at the August 2002 meeting, for additional 2003/04 local assistance funding for Library of California programs.

ISSUE 1: Consider the allocation of FY 2002/03 local assistance funds.

At its February 2002 meeting the Library of California (LoC) Board approved an interim budget for statewide and regional network programs (Attachment A). In the May 2002 revision of the Governor's budget an additional $2.4 million was removed from the LoC local assistance budget, reducing the total appropriation to $990,000. In the same budget revision PLF was reduced another $11.8 million to a total of $30 million and the California Library Services Act was reduced by $610,000.

LoC Budget

The Board will review a range of options to support regional and statewide services at its May meeting. Depending on decisions made by the Board, a final budget will be

proposed to the Board at its August 2002 meeting, assuming that the Governor has signed the 2002/03 budget by then.

The 2002/03 LoC Budget Model adopted by the Board at its February meeting allocates local assistance in the following areas:

Statewide Programs
Librarian's Index to the Internet	$ 239,360
LoC Periodicals/Serials	$ 42,000
Loan Compensation Pilot Project	$ 531,345
	$ 813,345

Regional Programs
Regional Networks	$2,576,655

Program Total $3,390,000

With a reduction in program funding from $3,390,000 to $990,000 the Board is left with no good choices on how to operate the LoC program. Staff believes that it will be extremely difficult, if not impossible, to operate the LoC with both statewide and regional programs within the limitations of a $990,000 funding level. Staff also acknowledges that many regional networks have hired staff that will be directly affected by budget reductions.

Such choices as there are could include:

1. Request that the State Librarian consider funding selected programs under LSTA. The State Librarian has authority to commit funds to programs that fit within the Library Services and Technology Act, existing state policies (including the LSTA State Plan), and available funding. It should also be noted that use of LSTA funds to support some of these programs might result in a reduction of LSTA funds to support other programs, either in the field or statewide.

2. Delete any, or all, statewide programs and allocate the balance of funds to the Regional Networks to operate as best they can with limited funding (perhaps with limits on services to be provided). It should also be noted that under almost any scenario in which funds are allocated to regional networks the Board must review the current network budget allocation model to ensure equitable distribution of available funding.

3. Delete regional network programs and services and shift the funding to support statewide programs, such as the loan compensation pilot program. Provide minimal support to the regional networks to fund only selected services. This would almost certainly lead to staffing reductions in some regional networks.

A further difficulty is the state budget process. It is possible that the state budget will not be finalized until after the June 30th deadline. If networks and statewide programs operate at current levels a significant amount of the $990,000 may be spent before the final budget is known and reductions need to be implemented.

Subject to the Board's confirmation, staff proposes to follow last year's approved methodology allowing the regional networks to file claim forms immediately for a specific amount of funding per regional network. These claims will be processed and will await disbursement when the budget is signed. This will allow the State Library to make funding available as soon as it is legally allowable. The Board will have the opportunity to review the budget, confirm its direction for the coming year, and establish any final allocation in August, assuming that the state budget is signed by then. Secondary claim forms could then be made available for the regional networks allowing them to receive additional payments.

Staff also urges the Board to address strategic planning issues and processes mandated by a budget reduction of this magnitude. The Board needs to consider whether and how the program can be rebuilt and/or whether other directions to promote resource sharing should be considered.

CLSA Budget

In the May revision of the Governor's budget the California Library Services Act 2002/03 allocation was reduced by $610,000. The recommended 2002/03 CLSA budget approved by the Board includes the following funded programs:

Transaction Based Reimbursements (TBR)	$ 12,145,000
Statewide Data Base	275,000
System Advisory Boards	45,000
System Reference	1,905,000
System Communications and Delivery	1,276,000
Special Services: California Literacy Campaign	4,090,000
Special Services: Families for Literacy	1,384,000

At the time this budget report was written it was not clear if there was any direction as to how to implement the $610,000 CLSA reduction. Subject to further discovery or direction with regard to this issue, staff recommends that when the Board approves the CLSA 2002/03 budget it discuss limiting reductions to the TBR and/or Statewide Data Base programs and keep intact funding for the literacy programs and for system-level programs. Under this scenario there would be several options, all of which would affect the level of loan reimbursement. Currently libraries are receiving 84.3% of the Board-approved reimbursement rate. The table below shows the impact of various options, including funding levels for the two programs and for the percentage of the loan reimbursement rate that would be paid, based on current estimates and assuming the reimbursement rate will not change.

Statewide Data Base		TBR	% Reimbursement Rate Paid
$ 0	No funding	$ 11,810,000	81.9%
$125,000	Fund only OCLC, Z39.50, and regional server subsidies	$11,685,000	81.1%
$150,000	Fund only grants	$11,660,000	80.9%
$275,000	Fully fund program	$11,535,000	80.0%

Regional Library Network representatives will meet with State Library staff on May 28, 2002 to discuss the Library of California budget situation.

ISSUE 2: Board options and positions on a build-out model for the Library of California.
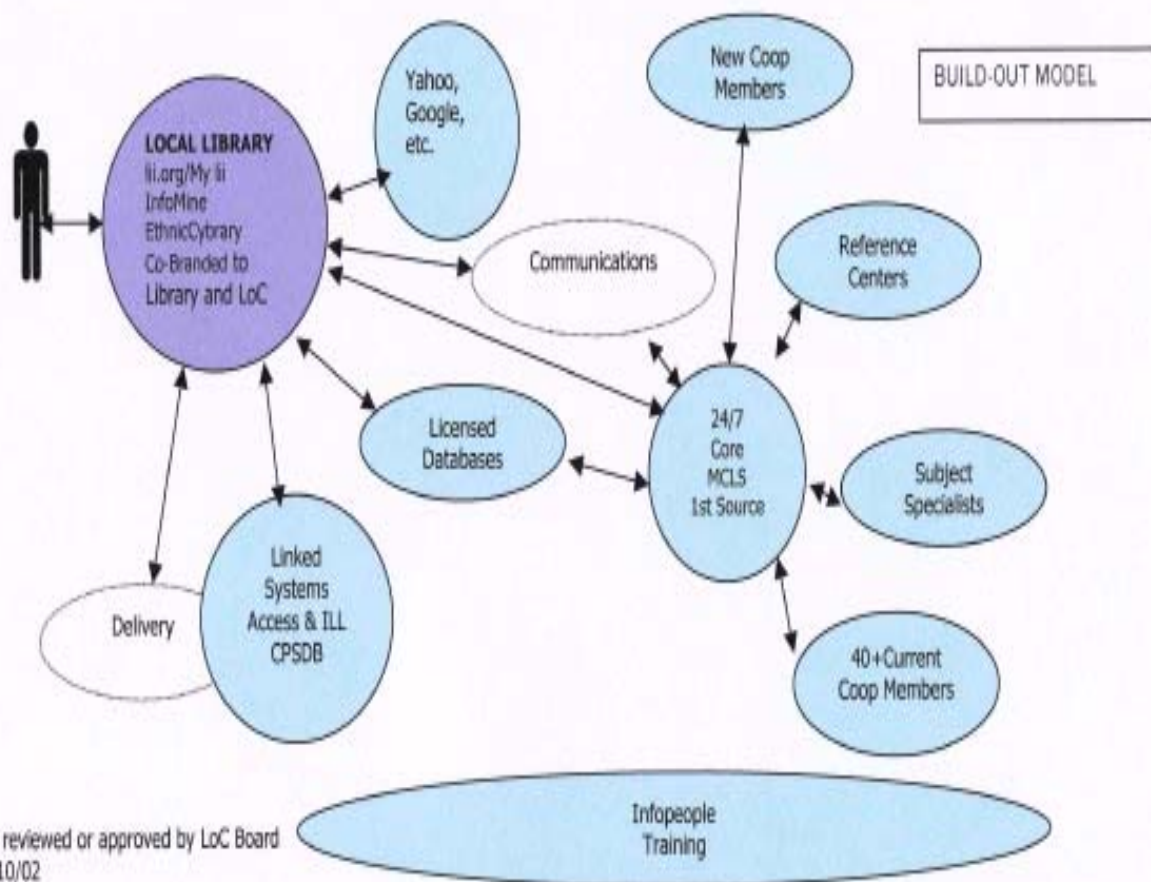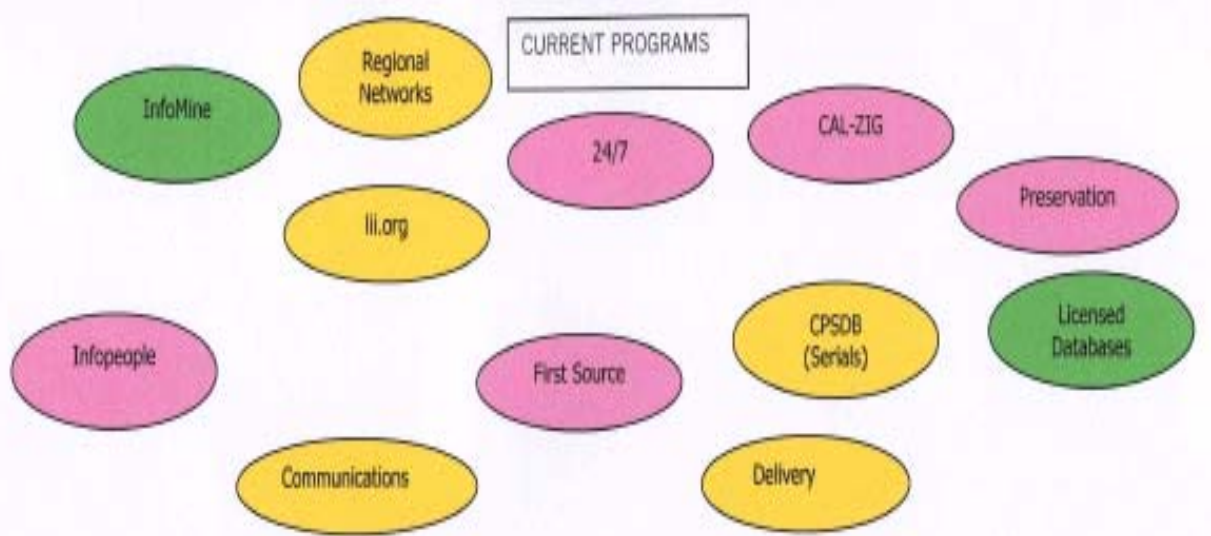
LoC Build-Out Costs

BUILD-OUT MODELS

Prior to the May budget revision staff reviewed and updated previous LoC budget models with the goal of developing a build-out cost model that takes into account existing LoC and California Library Services Act (CLSA) programs. In addition, Library Services and Technology Act (LSTA) programs that have the potential for adoption into the LoC have been included in the development of this model. The build-out model anticipates delivery of services described in 2005/06. Note that the LoC Board has not taken action either to establish policy in some program areas (e.g., statewide reference) or to adopt some of the programs listed in the build-out model. The build-out exercise was done to forecast the cost of implementing programs that are currently under development into the LoC. The model also does not take into account future program development that might also be integrated into the LoC or some LoC programs that have not yet been addressed.

Below is a graphical representation of the build-out model. Programs that are currently under development are listed above the line. Yellow programs are LoC, pink programs are LSTA, and green programs are local or regional. It should be noted that, in some cases, these programs are funded from several sources. The model below the line rearranges the programs into a pattern designed to provide services to the library user through a portal at the local library.

The services would be provided through regional library network and statewide programs. The relationship between regional and statewide programs is dynamic and subject to Board policy.

CURRENT PROGRAMS

InfoMine · Regional Networks · 24/7 · CAL-ZIG · Preservation · Iii.org · Infopeople · First Source · CPSDB (Serials) · Licensed Databases · Communications · Delivery

BUILD-OUT MODEL

LOCAL LIBRARY
Iii.org/My Iii
InfoMine
EthnicCybrary
Co-Branded to
Library and LoC

Yahoo, Google, etc. · New Coop Members · Communications · Reference Centers · Licensed Databases · 24/7 Core MCLS 1st Source · Subject Specialists · Linked Systems Access & ILL CPSDB · Delivery · 40+Current Coop Members · Infopeople Training

Not reviewed or approved by LoC Board
05/10/02

BUILD-OUT MODEL BUDGET

Below is a budget based on the model described above, using the 2002/03 LoC budget as a baseline. This is the first budget in which the costs of relevant LoC, CLSA and LSTA programs are brought together, and that identifies local funds currently supporting CLSA Systems.

Total Estimated LoC Build-Out Prior to May Budget Revision *DRAFT*

Network Programs	LoC Estimated	CLSA 2002/03	State Funds	Local Funds
Training	$922,040	Incl w/ref	Incl w/ref	Incl w/ref
Reference	$1,330,120	$1,524,000	$3,776,160	$798,823
Delivery	$1,530,263	$703,800	$2,234,063	Incl w/telcom
Telecomm	$2,025,240	$316,200	$2,341,440	$763,525
Awareness	$210,000	$0	$210,000	$0
Administration	$1,599,010	$681,200	$2,280,210	
Subtotal	$7,616,673	$3,225,200	$10,841,873	$1,562,348
Statewide Programs				
Statewide Projects	$14,000,000	$275,000	$14,275,000	
Loan Compensation	$4,496,916	$12,145,000	$16,641,916	
Literacy	$0	$5,474,000	$5,474,000	
Subtotal	$18,496,916	$17,894,000	$36,390,916	$1,562,348
Total	**$26,113,589**	**$21,119,200**	**$47,232,789**	**$48,795,137**

LoC FY 2002/03

Regional Programs	$2,576,655
Statewide Programs	
Statewide Projects	$281,360
Loan Compensation	$531,985
	$813,345
	$3,390,000

Not reviewed or approved by LoC Board
5/10/02

BUDGET DEVELOPMENT METHODOLOGY

The methodology for developing the budget for regional networks is an extension of the budget process used for estimating build-out costs in previous budget iterations, but it includes updated estimates that take into account that the networks are established and

that some startup costs have already been expended. The model assumes a base cost for a particular service in a network (e.g., a delivery van, driver, and operating costs) and extends it into multiple networks, taking into account different sizes of the populations served. Because the budget looks at the LoC program as a total, no attempt was made to use the current allocation formula to assign a specific budget to any regional network.

Regional programs include:

Administration*
Communications*
Delivery*
Public awareness*
Reference*
Training*

The methodology for statewide project costs is straightforward. Staff projected costs in known programs (e.g., elements of the reimbursement program) based on current and estimated future program workloads. In other cases, staff simply estimated the cost for a program at a statewide level (e.g., a more fully developed Librarians' Index to the Internet).

Statewide programs include:

Librarian's Index to the Internet*
Periodicals/Serials Database*
24/7 Reference (referral infrastructure)
CAL/ZIG (including Z39.50 grants)*
Portal development
Preservation
Member services/communications
Public awareness – statewide
Training
Statewide digital archive
Statewide catalog access / electronic ILL
Licensed databases
Amigos*
Loan compensation*
Administrative costs (CSL)

* approved in some form by LoC Board

The amount of total funding described in the budget model is consistent with staff's previous estimates for a build-out cost representing an LoC that is able to deliver significant resource-sharing programs throughout the state (approx. $50 million); however, it is not a model that represents every conceivable LoC program. The difficulty in projecting a larger-scale model is that it would be predicated in part on successful

implementation at lower service levels. This model represents programs that are already underway at some funding level and anticipates what it would cost to operate them at a level to serve LoC members at the projected 2005/06 numbers. Additional services and additional members will require additional funding.

ISSUE 3: Consider authorizing the preparation of a Budget Change Proposal for Library of California programs and services.

Fiscal Year 2003/04 Budget Augmentation Request

While staff is prepared to develop a budget request that incorporates any or all of the elements described above (or other elements) it does not look like FY 2003/04 will be a much better year for the state budget. Because the proposed 2002/03 LoC reductions are implemented as baseline reductions, staff will need to develop budget requests that rebuild those programs that the Board has approved to date, in addition to any new programs. The budget request will need to be fully documented, since it is not allowable to justify augmentations simply on the basis that the baseline budget was reduced in the previous year. Staff also requests input from the Board with regard to any priorities in either current or future services. Staff understands that the actual implementation of any program or service by the LoC will be under the direction of the LoC Board and that policy and procedures have not been developed in many program areas.

Recommendation:

That the Board consider development of a budget augmentation request for fiscal year 2003/04. Should the Board support this development, the conceptual elements of the request would be brought to the Board at the August 2002 meeting for approval, prior to submission of the request to the Department of Finance.

RELATED ISSUES TO COME BEFORE THE BOARD IN THE FUTURE:

1. Consider models for build-out of the Library of California Program.

2. Consider allocation of FY 2002/03 local assistance funds.

3. Consider FY 2003/04 Budget Augmentation Request.

Relevant Committee: Budget and Planning
Staff Liaison: Mark Parker